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Technology and the Price of Health Care

Comprehension Questions

1. A Laspeyres price index of health care inflation typically overestimates year to year increases in the price of health.

TRUE. A Laspeyres price index does not take quality changes or new innovations into account, so it may indicate rising prices for health care when a given amount of health is actually becoming cheaper.

2. The price of curing Hodgkin's disease has risen substantially between 1950 and 2000.

FALSE. In the 1950s, the price of a cure was effectively infinite, but now it is finite. *Treating Hodgkin's lymphoma*, on the other hand, has gotten much more expensive because so many new treatment options have become available.

3. The fact that total expenditures on heart attack care increased between 1984 and 1991 is good evidence the price of surviving a heart attack increased.

FALSE. Total expenditures have been increasing as heart attack care becomes more expensive, but it also became more effective during this period. In this sense, the price of post-AMI survival decreased.

4. The Dartmouth Atlas research project finds that health care spending varied

widely between different American cities in the early 2000s, and that Medicare enrollees in high-spending cities were a lot healthier as a result.

FALSE. The Atlas does show wide variation in spending levels, but it also finds that more expensive treatment did not tend to result in better outcomes.

5. The Dartmouth Atlas results are proof that health is easier and/or cheaper to produce in some American cities than others.

FALSE. That is one interpretation of the results, but it is also possible that health is equally easy to produce everywhere, but certain regions spend more on wasteful care due to supply-sensitive demand or local medical culture.

6. High health care expenditures in certain cities and states have been interpreted as evidence for supply-sensitive care and heterogeneous local medical cultures.

TRUE. These factors could explain why certain regions spend more on care but do not achieve better outcomes.

7. If Medicare patients in Boston are paying more per capita for a hip replacement than Medicare patients in Boise for the same procedure, but health outcomes are exactly equal, then this is evidence that Boston is wasteful in their health spending.

FALSE. Boston may have a lower health production function than Boise does and therefore may need to spend more money in order to reach the same level of health as Boise.

8. One reason why total health expenditures are rising is because of an aging population.

TRUE. More people are getting older and therefore sicker, causing an increase in demand for medical technology and treatments.